

City of San Diego  
Independent Rates Oversight Committee (IROC)

December 13, 2010  
**Special Workshop Minutes**

Alex Ruiz, Assistant Director, stated that the goals of the meeting are to continue an ongoing dialogue with IROC on the financial planning efforts associated with future Rate Cases. The workshop will provide IROC members with a basic familiarity and understanding of the rate setting process.

Mr. Ruiz proceeded by reviewing the information shared at the previous workshop, with the reminder that financial planning is a needs-based approach for Enterprise Fund cost recovery planning, keeping in mind there are two funds in the Public Utilities Department (Water and Sewer (Muni & Metro)). He also reiterated that revenue requirements are evaluated in the context of operational costs and infrastructure needs; and there are multiple drivers that factor into the total evaluation of Rate Case recommendations.

He then listed the various Rate Case drivers discussed at the latest workshop: CIP Program needs, CIP financing, rate affordability, operations and maintenance needs, and public confidence. Mr. Ruiz discussed the 5 key objectives in the Rate Case development. These include: 1) revenue sufficiency and stability; 2) maintenance of investment grade financial ratings; 3) rate equity and fairness, meeting the requirements of Prop 218; and 4) minimize rate impact; and 5) simplicity. He pointed out that revenue sufficiency and stability is a key component, and the predictability of revenue to fund the system costs, and sensitivity of overall revenue to variations in usage and growth are included. He reviewed the current investment grade financial ratings from Fitch, Moody's and Standard and Poors.

Vice Chair Hollingworth inquired about the cash-flow forecast. He asked if it incorporates the operation and capital components. Mr. Ruiz indicated yes, for bond disclosure purposes it generally goes out 5 years. He reminded him all Official Statements are provided online and are very detailed.

Referring to his presentation, Mr. Ruiz indicated with regard to the rate equity and fairness objective, customers should pay for their proportional cost to the system. He added that we want to minimize rate impacts, and that rates need to be simple and easy to understand. We strive on communicating clearly and explaining rate increase succinctly. He then reviewed the rate-setting process which consists of four main elements: (1) Determination of the Revenue Requirements (cost to the organization); (2) allocation of costs to the functional components of the cost of service; (3) distribution of the costs of service to customer classes; and (4) development and design of a schedule of rates and charges to recover the revenue requirements from each of those

classes. Mr. Ruiz provided a table listing all anticipated projects, showing total costs and expected costs in coming years.

Vice Chair Hollingworth thanked Mr. Ruiz for the detailed table, and would like to see the financing and reserve components of this, as well as the operating expenditures of the Department it would be beneficial. Also, quarterly updates would be desired. Mr. Ruiz indicated from the financing standpoint, we want the public to know and want to give them the confidence that we have a handle on both near term cost revenues as well as a roadmap for 10-15 years out, with the reminder that it is very difficult predict very far into the future, so we need to continue to update in order to keep up with the changes.

Last, Mr. Ruiz pointed out that part of the Rate Case Study is a discussion of the capacity fees, and that it is a component of the rate setting process. He then reviewed information on the Revenue Requirement Offsets and Allocation of Costs, which he stated are costs we bear to deliver water. By the January or February timeframe he would like to discuss the Recycled Water Pricing Study.

Meeting Adjourned